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RECOMMENDATIONS TO THE USAID MISSION TO LESOTHO CONCERNING THE PRELIMINARY DESIGN OF THE PROPOSED EMPLOYMENT GENERATION PROJECT THROUGH THE STIMULATION OF SMALL AND MEDIUM-SIZE ENTERPRISES

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AUGUST, 1979
ATLANTA, GEORGIA
U.S.A.

Contract No. AID - 632-79-07

PREFACE

This report was prepared for the United States Agency for International Development (USAID) Mission to Lesotho, South Africa, by GAMCO, Inc. a development consulting firm head-quartered in Atlanta, Georgia. The contents of the report deal with the preliminary design phase of a development project that is presently under consideration by the Lesotho Mission, and which is oriented to create and maintain employment opportunities through the stimulation of small and medium-size enterprises. A GAMCO representative visited Lesotho part of the months of April and May in order to obtain the necessary background information for the preparation of this report. As it is normally the case when outside advisory services are used, it must be stated that the opinions and views contained within this report are not necessarily those of USAID.

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I. INTRODUCTION

The objective of this report is to delineate and discuss the alternatives by which the United States Agency for International Development (USAID) Mission to Lesotho can contribute to the creation and maintenance of employment opportunities in the non-farm sector of that South African country. The general approach discussed in this report deals with the stimulation of small and medium-sized, private-sector enterprises as the vehicle to achieve the employment objectives. The previously stated intent by the Mission SADAP, CDSS and Congressional Presentation to participate in an enterprise development-type of project, is a timely initiative in light of the present economic constraints experienced by the Kingdom of Lesotho.

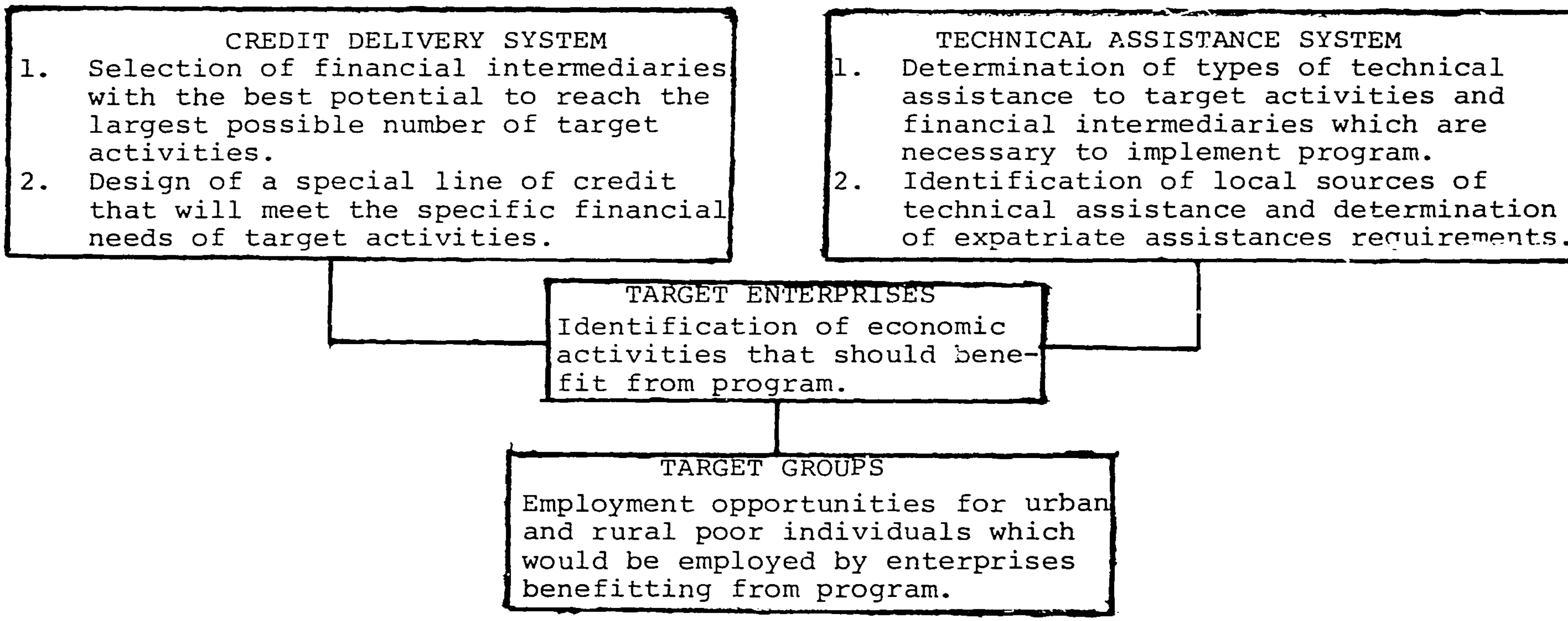
It is the consensus of the ad hoc design team, comprised of a member of GAMCO, Inc. and a USAID REDSO representative, that the potential development impact of the proposed program is indeed very significant. The recommendations presented in this report and those advanced independently by the REDSO representative, involve a general strategy and methodology that have produced excellent development results for USAID programs in other parts of the world. Much of the experience gained and several of the lessons learned in these other programs are incorporated in this report. The suggested courses of action reflect what perhaps, could now be labeled a "USAID approach" to employment stimulation. Such an approach seeks to maximize employment impact by attempting to reach the largest possible number of non-agriculture, productive-sector activities that are taking place, or will take place in as many geographic areas as is possible within a given country. In order to obtain short-term employment results, this approach seeks to make use of the human and institutional resources that already exist in a developing country, in an attempt to minimize the number of expatriates required, and avoid the creation of new institutions in order to implement a project. This tends to minimize recurring costs, which is a particularly important consideration for a poor country like Lesotho.

To be sure, no single project will completely eliminate the employment problems or any of the other economic constraints experienced in Lesotho. However, the importance of the proposed project rests in the significant contribution it would make to Lesotho, by energizing and reorienting certain human and institutional resources in such a way, that it maximizes development during the life of the project. A project of this nature includes in its design a methodology to account for the employment and other related economic objectives achieved during the first four years of the project's life. However, it must be recognized from the beginning that the institutional impact of the proposed project will be more permanent in nature.

Employment is acknowledged by the U.S. Congress to be a basic human need, and a project oriented to stimulate employment clearly justifies Mission involvement. To a degree perhaps greater than with any other international donor in recent years, USAID has established a precedent and developed a "know-how" for programs that provide assistance to small and medium-sized enterprises in order to expand employment opportunities. The majority of these programs have been implemented by USAID in the Latin American and Caribbean regions[1], and their conceptualization is based on the implementation of the two basic systems, which are illustrated in Figure 1. The magnitude and particular form of the credit and technical assistance systems vary from country to country, according to their needs and human and institutional capabilities. In those countries where projects have been more successful, due to efficient design and continuous local governmental support, other international donors are beginning to support the USAID initiative by injecting new funds to continue and/or expand the development and employment gains of such programs.

FIGURE NUMBER 1

TYPICAL DESIGN ELEMENTS TO BE CONSIDERED IN AN EMPLOYMENT STIMULATION PROGRAM



II. MAIN CONSTRAINTS ADDRESSED BY THE PROPOSED PROJECT

The goal of the proposed project has been stated as that of maintaining and expanding non-farm employment opportunities through stimulation of small and medium-sized enterprises. A project of this nature, which would have a direct impact on the Mission's target groups of the urban and rural poor of Lesotho, also contributes to the realization of development objectives, specified by the five-year development plan of the government of Lesotho (GOL).[2] The emphasis in employment creation is a high priority development objective in light of two major factors that characterize the overall employment prospects of the country. The first of these factors is related to the potential increasing influx of returning Basotho miners, which is likely to come about due to changing conditions in the Republic of South Africa. Informed sources[3] state that these conditions might adversely affect the employment situation in Lesotho, and include the following factors:

-- The Republic of South Africa is beginning to experience a relatively high rate of unemployment among its black population, and it is suspected that it will be necessary to provide employment opportunities for them, at the expense of Basotho and other non-citizen miners.

-- A recent trend towards mechanization has been observed, particularly in coal mines. This is likely to reduce employment opportunities in certain sectors of the mining industry in the Republic of South Africa.

-- Observers state that the recent practice to extend longer term contracts to non-citizen miners (possibly due to higher skill levels needed with the increased mechanization) will mean less manpower requirements in the future.

Another major factor that will affect employment prospects in Lesotho is related to the age distribution of the country's population. It is estimated that approximately forty-two to fourty-five percent[4] of the population is less than fifteen years old. This translates into potential new yearly entries into the labor force ranging between twelve to eighteen thousand individuals, depending on the source of information consulted.[5] The general consensus of the local governmental bodies and the international institutions contacted by the design team is that, there is a low probability that the agricultural sector has the capability to absorb the majority of returning Basotho miners and/or the new entries into the labor force. The most often mentioned constraints regarding the agricultural sector's lack of capacity to absorb new labor are: limited supply of agricultural land; reduction of available agricultural land due to severe erosion problems; lack of labor-intensive agricultural production, land tenure problems, and general inadequacy of agricultural credits and technology.

According to manpower data in the Second National Development Plan and a World Bank Mission report, it is estimated that the present labor force of Lesotho totals approximately 563,400 individuals. Twenty-nine percent of this total is listed as migrant labor, with approximately eighty percent of the remaining, domestic labor force listed as being engaged in subsistence agriculture. Table 1 reproduces the World Bank's estimates of the structure of Lesotho's labor force.

TABLE NO. 1

Structure of Lesotho's Labor Force

Modern Sector		
1.	Mining	800
2.	Manufacturing	3,600
3.	Construction	3,500
4.	Government	10,700
5.	Tourism	800
6.	Other Services	14,000
	Total Modern Sector	33,400
Traditional Sector		
7.	Handicrafts and Informal Activities	23,000
8.	Subsistence Agriculture	341,000
9.	Domestic Labor Force	398,000
10.	Migrant Labor	165,000
	Total Labor Force	563,400

Source: Economic Memorandum on Lesotho, World Bank, February 22, 1979, Page 13.

A recent ILO study, which has not yet been officially released, and which concerns the social and economic conditions in Lesotho, states in its opening remarks that among the principal reasons why Lesotho is considered to be one of the least economically developed nations in the world is the unproportionally small percentage of the total domestic labor force that is not engaged in subsistence agriculture. The proposed project will focus on expanding those segments of the domestic labor force that are not engaged in subsistence agriculture, mining or government work, and which presently represent approximately 45,700 individuals. The institution of a new program, which would include a credit delivery and a technical assistance system, could directly increase that figure by ten to fifteen percent within three to four years after the project has been implemented. This implies a preliminary investment of USAID funds (to be refined further at the PP stage) of less than one thousand dollars per each new job created or maintained. This figure contrasts sharply with the historical cost of approximately $12,500 per new job created in the industrial sector[6] during the three-year period from 1975-1978, when only 609 new jobs were created.

The preliminary findings of the design team indicate that the proposed project could make a significant contribution to the employment generation capacity of the economy by providing new funds and technical assistance. These funds and technical assistance would eliminate constraints experienced by various enterprises and would fill in "gaps" in the practices and policies of financial institutions in Lesotho.

A. Gaps in the Financial System

Presently, there are several gaps within the financial system of Lesotho that constrain the speedy development of indigenous enterprises. The implementation of a credit delivery system similar in conceptualization to the ones discussed in the next chapter, would fill and/or reduce these gaps by establishing a multi-purpose, multi-sectorial, development line of credit. The eight main gaps, which could be reduced or eliminated by a new line of credit, are discussed here by type or category. Some of these were identified by the design team and others were brought to the attention of the team during interviews with individual entrepreneurs in Lesotho.

1. Time Terms of Loans - The time terms available for loans made by financial institutions in Lesotho are very restrictive, with the exception of some loans involving the two development finance institutions (reviewed in the next chapter) located in Maseru. Presently, short-term loans made by commercial institutions are defined to be of a maturity not to exceed three months. Medium-term loans are those with a maturity of more than three, but less than six months. Long-term loans have a maturity of more than six, but less than twelve months. The capital assistance

component of the proposed project would establish a new line of credit that would be more characteristic of development finance programs, where term loans are extended for the purchase of fixed assets, with maturities of up to ten years, including grace periods of two years if necessary. In addition, a new line of credit should provide short-term, working capital loans with maturities of no more than twelve months duration, and when required, medium-term working capital loans with maturities of no more than forty-eight months.

2. Interest Rates - Presently, there are no special lending rates for the development of non-farm enterprises in Lesotho. Financial intermediaries, including development finance institutions, charge rates that range from twelve to fourteen percent per year, which are basically the rates charged by the commercial banking sector in the Republic of South Africa. A new credit line, using USAID funds, should establish "development rates" that could range between nine and eleven percent per year. The final figures should be determined at the PP stage; however, it appears likely that there will be room for improvement by reducing the nominal rates of interest paid by enterprises borrowing USAID funds. An ideal system of final interest rate charges paid by target enterprises, would be a flexible one allowing a two to three percentage points spread. The financial

intermediaries would charge each individual entrepreneur an interest rate within that range, depending on factors such as: size of loan, type of or quality of security offered, amount of technical assistance required, or other considerations.

3. Collateral Security Requirements - During the course of the multiple interviews held by the design team in various communities, with representation of the private sector, it was stated repeatedly that high collateral requirements by financial institutions were a major impediment to the growth and development of enterprises. According to many entrepreneurs, collateral requirements of two and three times the amount of funds being sought are typically demanded by financial institutions in Lesotho. This conservative policy is a predictable one in poor countries throughout the world. In most cases it is an understandable reaction when financial institutions do not have access to historical or background information (financial, managerial, technical, etc.) concerning the type of enterprise or the entrepreneur requesting a loan. The proposed project would address this important constraint in two different ways:
a) establish a special financial protection scheme;
b) provide technical assistance to target enterprises.
As discussed in the next chapter, two methods are available for the reduction of high collateral

requirements. The decision as to which method should be used will have to be made during the PP stage, since it will be determined by the final selection of the financial implementing institution.

The first of these two schemes involves the establishment of a guaranty fund that would assure participating financial institutions recovery of a percentage of individual unpaid loans made under the program. That exact percentage would have to be determined at the PP stage, since it would depend on the interest rate spread financial institutions will be allowed to keep to cover administrative expenses and profit. A guaranty fund of approximately twenty percent of the total amount of USAID capital assistance for the proposed project should be sufficient to initiate the program. This twenty percent could be a portion of the contribution that the government of Lesotho (GOL) could be requested to make to the project. An attractive feature of a guaranty fund is that the GOL would not have to allocate an amount representing the twenty percent immediately, since reimbursement to financial institutions would be necessary only as potential bad debts materialize throughout the life of the project.

The second possible scheme involves the establishment of a separate "bad debts fund." This fund would cover the full amount of the unpaid portion of defaulted loans. It could be funded by a couple of percentage points derived from the total interest rate charged to all target enterprises borrowing USAID funds. Initital "seed" capital could be contributed by the GOL, and/or as previously suggested, capital could be generated through the use of a variable system of interest rate charges according to each individual loan's risk level, as determined by the participating financial institutions.

Another way by which the proposed project would address the high collateral issue concerns the technical assistance system that should accompany USAID's capital assistance. As discussed in Chapter 4, part of the technical assistance component of the proposed project would involve assistance to enterprises using USAID funds. When necessary, these enterprises would receive accounting, managerial and production assistance. It is assumed that financial institutions would view this feature of the program as a risk reduction factor, even though the determination of the necessity of technical assistance was not necessarily conceptualized for that specific purpose -- dealing with high collateral requirements.

4. <u>Sectorial Gaps</u> - There are some readily identifiable gaps in the sectorial distribution of both development and commercial credit in Lesotho. In the case of the development finance (specialized) institutions, most credit

is extended to the industrial sector and special projects, such as industrial estates. The commercial banks provide mostly short-term credit to large traders and hotels in the Maseru area.[7] During the design team's field interviews with members of both the private and public sector, several sectorial activities were identified as clearly being outside the present reach of financial institutions in Lesotho. There are two main reasons why these sectors are not considered "bankable." The first one is that some sectors such as, service (e.g., transport enterprises, machine shops, etc.), Basotho commercial enterprises outside Maseru, and building contractors do not benefit from development lending, simply because there are no lines of credit that define these sectors as target enterprises. Secondly, small-sized enterprises in the above mentioned sectors and others such as artisans, and non-agricultural productive sector cooperatives (e.g., leather products, furniture, and poultry) are not considered "bankable" due to the lack of collateral and/or "acceptable" managerial talent. The proposed project, through its program of capital and technical assistance, would reduce these sectorial gaps.

A lesson learned from other similar programs in other countries, demonstrated that it must be very clear to entrepreneurs and financial institutions which type or category of enterprise should be eligible to benefit from a particular development line of credit. A multi-sectorial line of credit that is broadly defined, eliminates much ambiguity and permits more specific promotional efforts once a title or a name is given to the program for its identification and promotion. A broad, multi-sectorial line of credit is an effective strategy to increase the probability of generating maximum employment results. If potential target enterprises are restricted by sector, the opportunity to generate employment would indeed be curtailed.

As discussed in Chapter 4, which deals with technical assistance, a high priority of such assistance would be to carry out studies and promotional efforts necessary to stimulate realization of labor-intensive enterprises, in sectors that are of key importance to Lesotho, like import substitution industries and agribusiness. However, it is just as important, in terms of maximizing employment impact, to support those activities for which entrepreneurs exist already, and that show the need for assistance (capital and technical) in order to grow and develop. It must be remembered that the rate of entry of new entrepreneurs into the system, and/or investments in ventures considered choice enterprises by donors because of significant social impact, are affected by outside forces over which the GOL and donors have little control.

The type of economic activities that would define the target enterprises that could benefit from the proposed project should include the following:

-- Industry

-- Commerce

-- Service

-- Artisans

-- Quarrying

The term industry is used here in its broadest sense and is meant to include construction industry and livestock related enterprises, such as dairy and poultry. Quarrying includes the extraction and preparation of non-metal minerals like: sand, gravel, stone and lime. The commercial enterprises eligible to benefit from the project should be those that deal with items of "primary necessity" (food, clothing, medicine, tools, etc.) to the public, and should not include traders in the Maseru area dealing in items such as radios, televisions and similar goods.

In determining the type of ownership (public vs. private) that should be eligible to borrow USAID funds, the policies and practices of both of the public-owned development finance institutions in Lesotho (LNDC and BEDCO) must be considered. The majority of the business ventures supported by these institutions involve an equity participation and a loan from their part, hence, making these ventures at least partially owned by the public sector. Representatives of Lesotho's Chamber of Industry and Commerce strongly emphasized the desire of their members to have access to a source of development funds, where loans can be obtained without the need to negotiate the addition of a public-sector partner in the process. Therefore, in order to balance ownership related gaps within the credit system, it is recommended that the eligible beneficiaries of the proposed project include the following:

-- Private-sector individuals

-- Private-sector cooperatives

-- Enterprises that are owned at least fifty percent by private-sector individuals

As development funds become more scarce, the tendency is to design programs that seek to make maximum use of funds by impacting the largest possible number of individuals in the target groups. This has often been attempted in similar programs by establishing a parameter that serves to determine the eligibility of credit applications based on the maximum amount of loan funds required to create a new employment opportunity. The use of this technique in the design of rural enterprises development projects has been suggested as a guideline, by AID's Rural Development Division of the Development Support Bureau. The suggested eligibility parameters usually range between five to six thousand dollars of loan funds per each new job being created. The needs of enterprises in Lesotho are many and varied, and, unavoidably, there will be cases where such a parameter would not be met, even though the enterprises are important and vitally needed by the community in which they would be located. Feed mills and machine shops are examples of necessary establishments which tend to be capital-intensive.

To be sure, the important relevant figures are those that indicate the average investment of donor funds that helped in the creation and/or maintenance of employment, once all available funds have been disbursed. A methodology that can be followed in dealing with the cost of creating new jobs must establish a maximum amount as a guideline, but allow for exceptions. One of the covenants that could be included in a project agreement between USAID and GOL could state that no more than thirty percent of the original funds would finance investment that do not meet the parameter of loan funds per job created. A further refinement to a policy that attempts to maximize employment impact (through the use of parameters) could be the establishment of a similar parameter, half the size of the first one, for those cases where jobs are being maintained but no new ones are being created. The final decision concerning the size of the parameter(s), if any, should come after a demand analysis has been carried out at the PP stage. This will allow identification of the size of the parameters that would be realistic for Lesotho, once a more accurate picture of the investment needs and their employment impact has been established by the project paper design team.

5. Use of Funds - Interviews held by the design team with financial institutions and enterprises revealed that there are gaps within the system that do not permit the financing of certain investments and costs incurred by new or expanding enterprises. Power line extensions, equipment repairs and installation costs were mentioned, but the construction of buildings necessary to operate the enterprise was most frequently cited. Brick and mortar investments were urgently needed by many of the enterprises interviewed, but no financial institution in Lesotho is providing funds for this purpose, even though these are investments that are as important to the operation of an enterprise as are machinery and other fixed assets. In addition to working capital, the proposed project should finance the purchase or construction of buildings, and the acquisition, transport and installation (turn key) of equipment and machinery, including the cost of import duties and any other tax associated with their purchase and operation.

An item that at times appears in the credit applications of existing enterprises relates to the need to refinance old debts. The refinancing of old debts should be an eligible item under the proposed project as long as it would be considered necessary because an application falls into the following categories:

- -- The amount to be refinanced would be less than fifteen percent of the total amount of funds being requested
- -- The refinancing would release collateral that, in turn, would back up the rest of the loan.
- -- The finance charges of the old debt seriously affect the profitability of the enterprise and the ability to pay a new loan.

6. Geographic Gaps - Presently, the two development finance institutions in Lesotho have no branch operations and both are located in Maseru. Predictably, their activities concern mostly enterprises located in the capital city, where most of the physical infrastructure of the country is found, and where the largest single concentration of entrepreneurial talent exists by virtue of its population size. The present absorptive capacity of these institutions is apparently another factor that limits their outreach into other regions of the country. Dissatisfaction with the effective outreach of the two national development finance institutions was expressed by entrepreneurs located in the regional population centers visited by the design team.

   It is recommended that the proposed project should rely mostly on commercial banks as the implementing institutions of the program. Each one of the three main commercial banks in Lesotho operate at least ten different regional branches throughout the country. The utilization of commercial bank branches as "credit windows" for the proposed project should substantially reduce the present geographic gaps in development lending.

7. Size of Enterprises - Most developing countries in the world appear to have different quantitative definitions of small and medium-sized enterprises. In the case of Lesotho, small-sized enterprises can be classified as those sponsored by BEDCO (Besotho Enterprises Development Coporation). This financial institution limits its field of activity to enterprises that do not exceed fifty thousand rand (approximately sixty thousand dollars) in total assets. BEDCO however, rarely supports projects under four thousand dollars. Preliminary findings by the design team indicate that the proposed project would benefit a substantial number of individual entrepreneurs that require loans of less than four thousand dollars (e.g., artisans, repairmen, seamstresses, etc.). On the other hand, larger enterprises do not materialize because of sectorial and geographic constraints within the financial system. Preliminary inquiries by the design team identified that the amount of funds required by regional entrepreneurs appeared to concentrate mostly within two ranges: 2,000 to 8,000 and 75,000 to 100,000 dollars. The demand analysis that will be carried out at the PP stage should assist in establishing the maximum size

of a loan to be made under the proposed project. Naturally, the total amount of USAID funds available should also be an important consideration in setting the maximum limits. A common rule of thumb for determining maximum-size loans is not to exceed five percent of the original amount of funds available. This rule has been used for similar programs in Latin America (e.g., Peru and Paraguay). The total amount of funds available is indeed an important consideration; but the needs of enterprises with significant employment creation potential should also be included in the project. Attempting to quantitatively differentiate between small and medium-sized enterprises does not have a substantive purpose unless it is deemed desirable to extend better loan conditions (e.g., lower interest rates, longer terms, exclusive guaranteed-fund protection) specifically to small-sized enterprises. Lower-cost interest rates for small enterprises is always a tempting alternative; however, before reaching decisions concerning this alternative, it must be remembered that often small loans are more expensive to administer than large ones. In terms of program administration and monitoring, a quantitative definition of small and medium-sized enterprises would be necessary if one of the covenants of the project agreement would establish, for example, that no more than thirty or forty percent of the total funds would be used to finance medium-sized enterprises.

The demand analysis and the strategic planning that will take place during the PP stage should eventually answer these questions. However, within boundaries, the maximum individual loan size should reflect the investment needs of target enterprises. In addition, while setting the limits, it must be kept in mind that "larger" loans with high employment-creation potential should be considered.

8. Financial Institutions Personnel - The design of the project involves the establishment of a credit delivery system that makes use of commercial bank branches as credit windows for target enterprises. The design also includes a technical assistance system which, in addition to helping enterprises, would strengthen participating financial institutions by upgrading the skills of their personnel. This can be accomplished by special training through seminars, of branch managers and loan officers, which should begin immediately after the signing of a project agreement.

Commercial banks in Lesotho have little or no experience in development term-lending (more than one year in maturity). Credit analysis techniques of commercial lending vary from development lending analysis techniques. The former makes use of liquidity ratios and considerations as major decision factors for a loan, while the latter, in addition to liquidity ratios, relies heavily on cash flows and income pro-forma statements, as well as in market analyses. It must be assured that the implementing institutions have the technical capability to carry out the project. In addition to the training of financial officers of participating institutions, short-term technical assistance should be provided at the pre-implementation stage, in order to assist in the preparation of an operations manual. The manual would be used by the participating institutions' headquarters and their respective branches. It would list all the characteristics and limitations of the line of credit, as well as the administrative instructions (flows) for the collection, control, and distribution of paper work. During the PP stage, it would be determined if the pre-implementation, short-term assistance should include development of a specially designed credit application format for the project, and whether it would be necessary to delineate terms of reference for the preparation of feasibility studies that should accompany credit applications of new enterprises and/or major expansions of existing ones.

Experience with similar programs has shown that projects involving multiple credit windows should become "institutionalized" from the beginning. A well-prepared operations manual is a major step toward this end, because it permits continuity of the program when personnel responsible for the project is absent, transferred, or no longer working for the same institution. In addition, the manual would be an excellent instruction tool during the special training seminars in order to familiarize branch personnel with the line of credit and its operational characteristics.

Operations manuals are relatively new tools for the implementation of new projects. Therefore, there is no standard approach for their preparation, nor general concensus for the type of information that they should contain. Typically, however, they include at least the following information:

-- Detailed description of the characteristics and restrictions of the line of credit (the do's and don'ts)

-- Instructions concerning documents and other prerequisites that must be met by entrepreneurs requesting a loan

-- Instructions about the internal distribution of the above-mentioned documents.

The Mission should request copies of operations manuals that are presently being used in connection with rural enterprises development projects sponsored by USAID in Peru, Bolivia, and Paraguay.

B. <u>Entrepreneurial Constraints</u>

The results of the inquiries made by the design team in Maseru, in consultation with public and private institutions, as well as through interviews held with individual entrepreneurs in several other communities (see Annex No. 1 for a list of communities visited and entrepreneurs contacted during the field trip) show that in addition to capital assistance, it is equally necessary to institute a comprehensive technical assistance system for the support of enterprises that would use USAID funds. The present day pool of entrepreneurs that could potentially benefit from the proposed project is considerable, despite claims by some national and international bodies, that there is little entrpreneurial spirit in Lesotho. Table No. 2 summarizes the number and locations of industrial enterprises and other licensed businesses in six of the nine geographic districts of Lesotho. In April, 1979, there were 59 industrial concerns and 7,395 other businesses registered by the Ministry of Industry and Commerce in those six districts. A detailed breakdown of the various types of enterprises included in these two major categories can be found in Annex No. 2 and Annex No. 3, respectively. There are no industrial concerns registered in the districts of Quthing, Mokhotlung and Qacha's Nek, and it was not possible to obtain statistics relating to the number of licensed businesses in those districts. However, given their population size, they probably add between 1,200 to 1,300 establishments to the total number of business enterprises in Lesotho.

Table No. 2

SUMMARY OF INDUSTRIES AND LICENSED BUSINESSES - 1979

Districts	Population	Number of Industrial Enterprises	Number of Licensed Businesses
Maseru	231,981	37	1,749
Leribe	176,781	12	1,652
Mafetang	133,750	2	965
Berea	125,798	5	1,282
Mohale's Hoek	118,900	1	1,121
Quthing	78,139	None	Not Available
Mokhotlung	66,993	None	Not Available
Qacha's Nek	66,274	None	Not Available
Butha-Buthe	65,735	2	635

Source: Statistics Departments of Ministry of Industry and Commerce, and Ministry of Planning.

The observations by the design team concerning the conditions of enterprises in Lesotho, lead to the conclusion that many of these are stagnant or in the very early stages of development. There is evidence that the majority maintain demand deposits with commercial banks. The most recently established bank (Lesotho Bank), reportedly has approximately 2,000 business accounts. However, very few receive loan capital from these banks. It is postulated, as a result of the field interviews, that the majority of the enterprises do not maintain accurate records of their expenses and profits. Established practices dictate that a business concern cannot be defined as an enterprise unless it maintains a cost accounting system showing its net worth, costs and revenues. In fact, if such information is not available, it is not possible for a business to become "bankable", since it would be very difficult to determine the amount of time and size of payments required to repay a loan. There are several reasons for the apparent lack of internal administrative controls of many enterprises in Lesotho. The principal ones appear to be the following:

-- Lack of familiarization by entrepreneurs with basic accounting needs, procedures, and record-keeping methods.

-- It has been less than two years since the GOL has made a determined effort to collect business income taxes from the various enterprises within the country. The absence of a taxing body did not encourage the maintenance of accounting records.

-- The unavailability of institutional lines of credit, for the stimulation of small enterprises, has not made it necessary for these enterprises to prepare financial statements.

-- The shortage of accountants, and the absence of facilities or programs where entrepreneurs can continuously receive training and/or assistance in setting up a basic accounting system.

The government of Ireland will begin sponsoring a program[8] designed to train accountants at three different skill levels in late 1979. However, this program does not include training for entrepreneurs. The design of the proposed project includes a technical assistance system, that would pool the human resources of existing institutions (discussed in Chapter IV) in order to operate a Business Extension Center. At this stage of project development, the main functions of such a Center have been conceptualized to provide training to the largest possible number of entrepreneurs in the country, and to provide direct technical assistance to those enterprises that borrow USAID funds. The areas of training and assistance that have been identified at this stage as necessary in order to reduce entrepreneurial constraints, are as follows:

Training

-- Regional seminars which would instruct entrepreneurs in basic accounting tools and methods. Training in the use and maintenance of credit. Instruction in general management and business administration topics (e.g., marketing, finance).

Assistance

-- Direct technical assistance to borrowers in the establishment of accounting systems. Preparation of investment feasibility studies. Advisory services related to management, finance, marketing and production problems. Assistance in preparing credit applications and obtaining necessary government permits and licenses.

The sponsoring of a Business Extension Center is a necessary feature of the proposed project, since there are no national consultants and accounting firms that could provide such urgently needed services. Even if they did exist, it is very doubtful that most small enterprises could afford to pay the full cost of their services, given the present stage of development of the majority of enterprises in Lesotho. Embodied in the design of the proposed project is the provision of "occupational" credits for very small entrepreneurs (informal sector), which would have the nature of personal loans for amounts probably under $1,000 (to be determined specifically at the PP stage), and for short and medium-term time periods. The occupational credits probably would not require the establishment of formal accounting records, but rather the emphasis would be on making this group "bankable" by providing them the opportunity to establish a credit record with financial institutions in the country.

III. ALTERNATIVES TO THE ESTABLISHMENT OF A CREDIT DELIVERY SYSTEM

As stated in the Introduction, the proposed project would focus on utilizing existing credit channels in the design of a credit delivery system for target enterprises. In Lesotho, as is the case in most developing countries, financial institutions can be grouped into two categories: specialized and non-specialized. This chapter reviews both categories and discusses two alternatives for the implementation of a credit delivery system. The last section of this chapter discusses the merits or "trade offs" of the two suggested alternatives.

A. Review of Financial Institutions in Lesotho

There are three specialized credit institutions in Lesotho, and two groups or networks of credit intermediaries that can be considered specialized or semi-specialized: Lesotho National Development Corporation (LNDC), Besotho Enterprises Development Corporation (BEDCO), Lesotho Building Finance Corporation, Lesotho Coop, and Lesotho Cooperative Credit Union League. There are three main non-specialized credit institutions: Barclays, Standard and the Lesotho Bank. In addition the Standard Bank of South Africa operates a branch in Qacha's Nek. The purpose of this section is not to present a comprehensive analysis of these institutions (since most of them have been reviewed recently by other international organizations, and copies of these reports[9] are available to the Mission), but to discuss their main operational features regarding their principal activities and areas of influence, as well as considering their relative "attractiveness" as implementing institutions for the proposed project.

1. LNDC - The Lesotho National Development Corporation has been active since 1967. It was established by the GOL to provide equity capital and long-term loans to large, medium and small enterprises, mainly in industry and tourism. One small investment of $4,000 was made, but the responsibility of attending to the needs of small enterprises was passed to its subsidiary, BEDCO, in 1975, when this latter institution was established. LNDC operates no branches, but its role has been a key one, by being the first development finance corporation of its kind in Lesotho. Its major emphasis in the past was the development of large and medium-sized industrial and tourism-related enterprises. Another major area of LNDC activities has been the development of industrial parks and estates (the construction and management of shell industrial buildings). LNDC has provided equity capital to most enterprises it has sponsored, which makes it more of a venture capital corporation than a regular development finance

corporation. Apparently, LNDC has survived its "infant" stage with all the administrative and managerial problems which usually accompany this early stage. Its present main emphasis is to support the development of large enterprises, and to become involved in the promotion of foreign investments in Lesotho. Since its focus is on large industrial enterprises, and it does not operate regional branches it is not an attractive implementing institution for the proposed project. Interviews with LNDC management revealed that presently there is no need for new funds. However, a need for more expatriates to help manage their investments was manifested. Sponsoring of expatriates through the proposed project would not be justified due their high costs and minimum return in terms of employment impact, since LNDC investments involve mostly already-established, large enterprises.

2. <u>BEDCO</u> - The Basotho Enterprises Development Corporation is another public institution wholly owned by LNDC since its establishment in 1975. As previously mentioned, it supports industrial and some commercial enterprises with total assets under $60,000. Like its parent coporation, it resembles a venture capital institution in nature, and is involved also in real estate development in the form

of industrial and commercial estates. It is located in Maseru and operates no branches.

Upon arrival of the design team, it was thought that BEDCO could be a candidate to become the main implementing institution for the proposed project. Subsequent interviews with BEDCO management, however, revealed that BEDCO presently does not have a need for additional funds. In addition, its absorptive capacity is limited to a maximum of six new projects per month. BEDCO management also expressed a need for expatriates to help manage its investments and promote new ones, but the sponsoring of expatriates in the proposed project would have a higher employment related impact under the technical assistance scheme discussed in Chapter IV.

It is a fact that both LNDC and BEDCO are making very important and significant contributions towards the economic development of Lesotho. They have performed a pioneering role at a time when there were no other institutions available or capable to perform similar tasks. Their strategy for development can best be defined as a "European approach" to enterprises development, which in a way is represented through the nationalities of expatriate functionaries: Swiss, German, British, Belgian, Canadian and other British Commonwealth nationalities. Such an approach is characterized by the presence of a relatively large expatriate staff with a program management style that maintains direct, tight controls over the individual projects being sponsored. The expatriates play an executive role rather than an advisory one. The reasons why these institutions are not perceived as the ideal implementing institutions relates to their limited absorptive capacity, which is due to: lack of branch operations; narrow sectorial specialization; present access to funds for future activities expansion; and preference for equity participation in investments, which puts a premium on larger enterprises and limits the potential to satisfy the loan demand of small enterprises.

3. Lesotho Building Finance Corporation - This is a relatively new institution (June, 1977), which, despite its name, closely resembles a savings and loan association that specializes in financing residential units. The Lesotho Building Finance Corporation does not finance building contractors as enterprises by providing short, medium and long-term capital, but rather it finances its depositors and/or clients the construction of homes. This institution would not be suitable as an implementing institution due to its high degree of specialization.

4. Lesotho Cooperative Credit Union League - The League is

an apex organization resembling, in its objectives, the credit union federations found in many other developing countries. Its main purpose is to provide technical assistance in the formation of new credit unions and assist in the management and control of existing ones through training and technical assistance. Its membership is composed of forty-nine credit unions, and the League seeks to provide benefits for its affiliates that they would find difficult to obtain on their own. One of the main objectives of the League is to provide its affiliates with additional funds for re-lending to their members. The individual credit unions are "grass roots" organizations, located in small villages and other rural areas. The bulk of the financial services of credit unions is to provide agricultural production credits. Two credit unions were visited by the design team during the field trips. Consultations with the League's management and the field trip visits led to the conclusion that, given their present stage of development (and their major emphasis on agricultural production credit), they are not suited to act as principal implementing institutions for the proposed project. The degree of lending "sophistication" and know-how of the unions' officers would present extremely difficult problems in directing these unions to provide development credit to small enterprises. At best, they could probably provide limited credit to village artisans -- but even this function would likely meet with serious organizational, administrative, and other human constraints. The League and its membership certainly appear to merit assistance from international donors, given their private-sector, grass-roots characteristics. However, no specific role was found by the design team for the League and its affiliates within the proposed project. It is possible that a minor role can be found at the PP stage, although it appears unlikely at the present time.

5. Co-op Lesotho Ltd. - It is also known as the Finance and Marketing Co-operative Union of Lesotho. It was established to take over the affairs of the Basutoland Co-operative Banking Union and Basutoland Co-operative Federation, which were liquidated in 1963. It is stated that Co-op Lesotho Ltd. is held in trust by the GOL until such time when "the co-operative movement is able to run it on co-operative principle and philosophy." Its major objectives are listed as being: wholesaling, marketing, supply of agricultural inputs, consumer items and building materials, banking, and the financing of primary societies for agricultural credit. There are one hundred and sixty-eight credit unions and savings societies throughout Lesotho that have received loans and maintained deposits at Co-op Lesotho Ltd., according

to an internal report from this latter isntitution. As was the case with the Lesotho Coop Credit Union League, the design team saw no potential for this organization to play a major role within the proposed project, given their lending experience and their present stage of development. Unless a realistic and convenient approach can be found at the PP stage, which would provide a niche for these organizations, it appears that Mission support should come about only through a separate and distinct project.

6. Commercial Banks - There are four commercial banks licensed to operate in Lesotho: Barclays Bank Ltd., Lesotho Bank, Standard Bank, Ltd., and the Standard Bank of South Africa Ltd. As a group, these non-specialized institutions control financial assets and operate facilities which are far greater in volume and number than those of specialized institutions in the country. In December, 1978, the total amount of deposits handled by these institutions reach 67.4 million Rands. As indicated in Table No. 3, they operate a total of 42 branches and agencies, 32 of which are located outside the capital city of Maseru. It is precisely because of the relatively large number of facilities that they operate throughout the country, that these non-specialized institutions present the best choice to act as implementing institutions for the proposed project.

TABLE NO. 3

Location and Number of Commercial Bank's Branches and Agencies in Lesotho

Location	Barclays Bank Ltd.	Lesotho Bank	Standard Bank Ltd.	Standard Bank of South Africa Ltd.
BEREA				
Maseru	1	4	3	-
Teyateyaneng	1	1	-	-
LARIBE				
Maputsoe	1	1	1	-
Hlotse	-	-	1	-
BUTHA-BUTHE	1	1	1	-
MOHALE'S HOEK	1	-	1	-
MAFETANG	1	1	1	-
MASERU	-	-	-	-
Masenod	1	1	-	-
Morija	1	1	-	-
Pitso Ground	1	-	-	-
Roma	1	1	-	-
Thaba Tsekz	-	1	-	-
QUACAS NEK	1	1	-	1
MOKHOTLONG	-	1	-	-
Letseng-La Terai	1	-	1	-
QUTAING	1	1	1	-
Mount Moorosi	-	1	-	-
Total Number of Branches & Agencies	14	17	10	1

Source: Lesotho Bank; Standard Bank Ltd. Director, 1979; Report by the Commisioner of Financial Institutions, December 31, 1978.

Experience has shown that geographic proximity to target enterprises is a necessity, from the point of view of financial institutions and of entrepreneurs alike, particularly when the bulk of potential borrowers are individuals and small-sized enterprises. The use of commercial banks as implementing institutions for development finance projects is not new to USAID programming. In fact, to a greater degree than any other international donor, USAID has pioneered this approach, and several successful programs are presently being implemented in Latin America.

Commercial banks in Lesotho traditionally have concentrated most of their lending activities in providing short-term credit to established wholesalers and other traders. In 1978, fifty-five percent of all commercial bank credit went to the commercial sector, a percentage that becomes even more significant when considering that eighty-three percent of all commercial bank credit went to business enterprises. Another characteristic of these institutions has been the high liquidity surplus they have traditionally maintained in the past. The average liquidity surplus for 1978 was one hundred twenty-six percent over the required reserves. These high liquidity ratios have been the subject of much discussion by international[10] and national institutions.

Several factors help to understand the circumstances which have led to the maintenance of high liquidity ratios. Most of these factors are institutional in nature. The absence of a central bank in Lesotho and its membership in the Rand Monetary Area is a determining factor that greatly influenced the high liquidity preference of commercial banks in the country.

In a way, the behavior of commercial banks in Lesotho parallels that of similar institutions in many other developing countries. This behavior has been stated[11] to result from "functional imperfections" in a system, where commercial institutions capture deposits from rural areas and utilize these funds in the capital cities, where demand is greatest and where the larger and more important clientele is located. This takes place in the case of Lesotho, but in addition, significant portions of these funds flow to the Republic of South Africa, where they are held in relatively risk-free securities. The use of a common currency and the free flow of funds within the Rand Monetary Area countries has exacerbated the functional imperfections in the case of Lesotho. The banks' behavior is reinforced by their lack of trained personnel that can evaluate, analyze and control term loans for non-traditional customers and activities. In addition, the presence of LNDC and BEDCO, coupled with the absence of government guaranty programs to help offset the predictable risk aversion of commercial institutions, have, no doubt, contributed to this behavior by commercial banks.

The Office of the Commissioner of Financial Institutions (CIF) is the organization charged with the responsibility of overseeing the activities of commercial banks. Except for a few functions, where the CFI interacts directly with financial institutions such as in the issue of guidelines for foreign exchange transactions; issue of licenses allowing the operation of new financial institutions; to issue, place and service government securities or arrange for bank loans if needed, the role of the CFI can best be characterized as being one of a surveyor rather than a controlling organization. During the course of the latter part of 1979, the CFI is scheduled to become a Monetary Authority (MA) and will start to operate like a currency board, with the issuance and redemption of notes and coins (Maloti). It will be granted authority to control financial institutions, administer an exchange control office, advise the GOL on monetary matters and assist the GOL in the management of public borrowing and lending. After a period of time, when adequate staff has been recruited and trained, the MA is expected to expand gradually into a full-fledged monetary authority. The future provisions for the MA include the opening of accounts and acceptance of deposits from financial institutions, the determination of discount rates, the enforcement of financial institutions to maintain required reserves with the Authority, the regulation of interest and credit, and the establishment of a clearing house. The Authority will also be authorized to open accounts for and accept deposits from the GOL; however, it shall not make advances to the government.

The re-orientation of commercial banks behavior toward multi-sectorial, development term-lending cannot be done overnight, but it would be facilitated after the institution of a monetary authority, and after financial incentives for commercial institutions are established. The removal of existing institutional constraints (development lending know-how) would also be a necessary condition. A popular first move in this direction which is taken by monetary authorities (central banks) of many developing countries, is the establishment of mandantory quotas that commercial banks must meet concerning the sectorial distribution of their loan portfolios. Often this move is accompanied by setting up lower maximum interest rates that can be charged to productive-sector activities. The benefits of this approach are to redirect commercial bank credit away from consumer-type financing (e.g., personal loans) to productive-sector activities. This approach does indeed serve the purpose of shifting commercial bank credit to more developmental activities. However, unless new incentives (e.g., guarantees) and the elimination of institutional constraints also take place simultaneously, the result often is that only established, elite clientele, located in the capital cities, are the direct beneficiaries.

As previously indicated, the design of the proposed project includes features oriented to provide incentives to financial institutions, and to remove the institutional constraints. The strategy upon which the proposed project is based calls for utilization of the many "credit windows" of commercial banks' branches and agencies. Included in this strategy are the institutional building elements (T.A. to banks and target enterprises) necessary to achieve the employment generation goals of the project. Coincidental to this strategy is that a precedent for more active future participation by commercial banks in development finance activities will be established. In addition, a modest but significant inroad will be made into the chronic liquidity surplus (23.4 million Rands at the end of 1978) of commercial banks, because participating institutions will be required to match the USAID funds with their own funds for a percentage (to be determined at the PP stage) of the total amount of funds lent to entreprenuers.

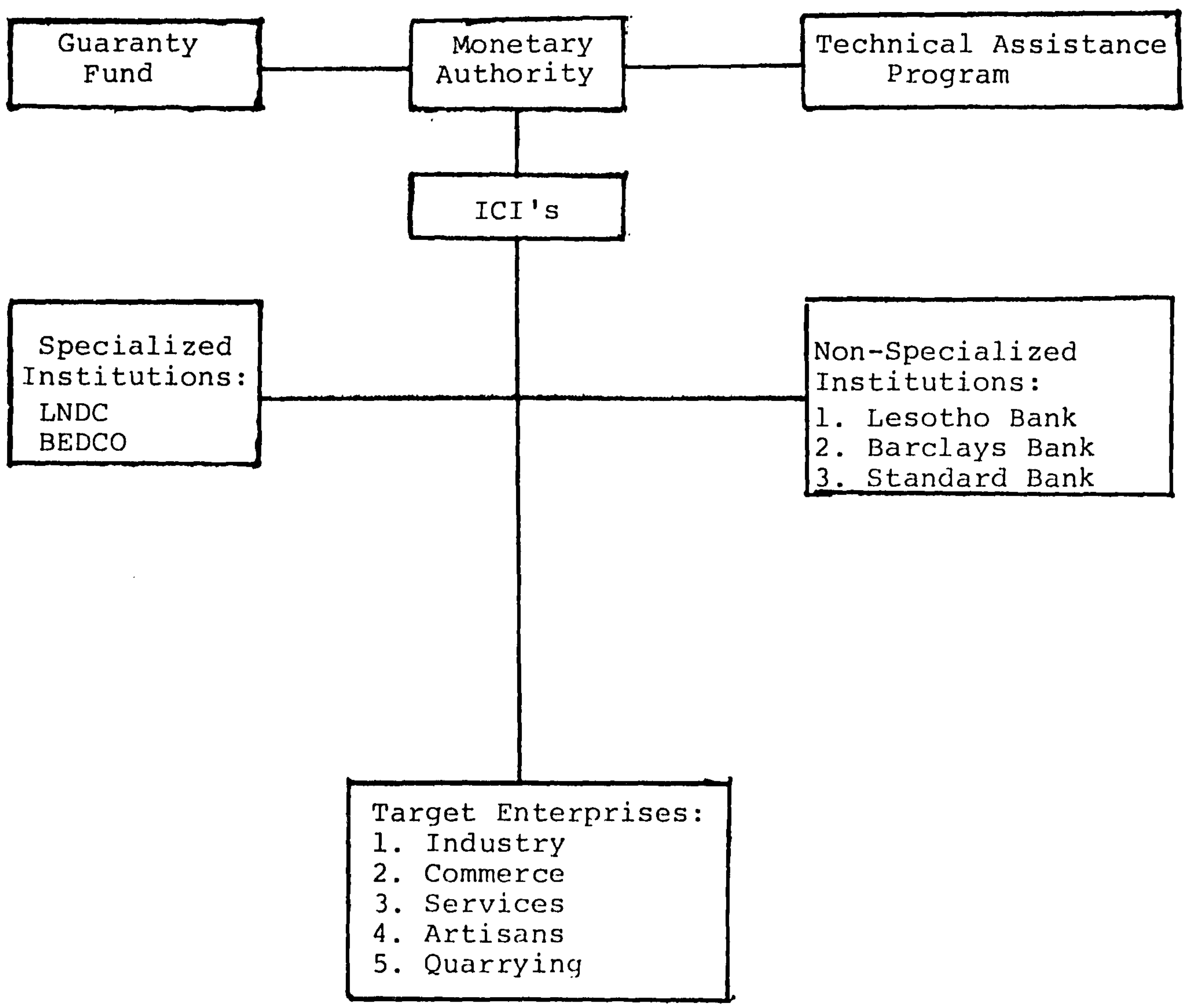
The alternative, where the proposed project would not include a capital component, but would rely strictly on the use of commercial bank surpluses for the financing of target enterprises; and where the USAID project would concentrate on establishing a guaranty program and institutional building efforts, is not considered a viable one at the present time. Such an alternative would require the existence of a full-fledged Monetary Authority, which in the case of Lesotho will take several years before reaching that stage. In addition, the eventual terms and cost of funds for target enterprises would likely be higher (added administrative costs) and would be unstable, since the availability and cost of funds depend on conditions in the South African economy, which may or may not move in the direction where it would eventually benefit Basotho entrepreneurs. The concessionary nature of USAID funds permits the covering of additional administrative costs, added risks, and allows attractive profit margins for participating institutions, while at the same time allowing the charging of interest rates to target enterprises that are equal to, or less than, present commercial rates.

B. Alternative No. 1 - Second-Level Program

The first alternative to establish a credit delivery system for the proposed project involves what is generally known as a second-level program. The principal actors that would be included in a second-level program in Lesotho are illustrated in Figure No. 2. This approach would establish a central fund at the soon-to-be established Monetary Authority, and would lend (discount) these funds to both specialized and non-specialized financial institutions that wish to participate in the program. The implementation of a second-level program was discussed by the design team with government organizations and banks in Lesotho. Interest in participation has already been manifested by the CFI and the Lesotho and Standard Banks. Second-level programs derive their name from the methodology which characterizes the way funds flow from the main implementing institution (Monetary Authority) to target enterprises. After an initial period of intensive program promotion by the implementing institution, where the new program is announced (e.g., radio, newspaper, pamphlets, posters, etc.) and discussed with groups of entrepreneurs throughout the country; individual entrepreneurs would approach a specialized or non-specialized institution of their choice (known to designers as intermediate credit institutions or ICI's), and request a loan under the new program. By that time the program would be known by a specific title or name. The ICI would evaluate the application and determine its eligibility, based on prior

FIGURE NUMBER 2

Principal Actors in Second-Level Program



training and the instructions (operations manual) issued by the implementing institution. If the ICI chooses to support the application, it would send it to a special operating unit within the implementing institution (MA) to confirm the eligibility and to request the discount of the future loan. The discount would involve an amount which would be less (the specific percentage to be determined at the PP stage) than one hundred percent of that being requested by the entrepreneur. The balance of the amount needed by the applicant would be provided through the ICI's own funds. Normally the discount rates range from sixty to ninety percent, depending on the country and interest-rate spread that ICI's are allowed to keep. The interest rate(s) for target enterprises would be predetermined by the PP design team and the implementing institution. These rates would be announced in the program pamphlets during the promotional activities. The interest rate that the MA would charge to ICI's (also to be determined at the PP stage) for the amount of funds to be discounted, would be lower than those charged to the ultimate borrowers to allow for administrative costs, risk and profits to the ICI. The time terms the implementing institution would give the ICI for the discounted amount, would be exactly the same as those granted by the ICI to the target enterprise. The interest rate the ICI's would charge for the non-discounted portion of a loan would be the same as the rate charged to entrepreneurs for the discounted portion. Risk for loans to target enterprises is assumed by ICI's. The risk of discounted amounts to ICI's is assumed by the implementing institution. In other words, there would be two parallel sets of documents: the promissory notes or loan drafts between ICI and target enterprises, and the discount documents between the main implementing institution and the ICI. Since very small loans are likely to be the most numerous, they should be granted by ICI's and discounted automatically without having to wait for prior analysis and authorization from the implementing institution. The size of loans that could be subject to automatic discount would have to be determined in the demand analysis, to be carried out by the design team during the PP stage. The automatically-discounted loans would be spot checked by the implementing institution after they have been granted by the ICI's, in order to review their eligibility, with the understanding that small loans granted by ICI's under the automatic discount vehicle, which subsequently are found not to meet eligibility criteria, would be subject to immediate repayment (the discounted amount) by the ICI's.

As indicated in Figure No. 2, a guaranty fund is suggested for a second-level program. A guaranty fund is one of the best-known tools that serve to stimulate commercial bank participation in development finance programs. USAID has implemented six projects in Latin America involving the establishment of guaranty funds (Production Credit Guaranty Programs or PCGP's). In the case of Lesotho, such funds could be capitalized by the GOL as a counterpart contribution to the proposed program. The fund could share the risk of possible business failures by assuming one-half of the losses of the unpaid portion of an outstanding loan, after the liquidation of pledged assets and/or other collateral has taken place. Guaranty funds are necessary elements of development programs in order to overcome the conservative practices of commercial lending institutions in developing countries. The key to their success after implementation depends on designing a balance between the level of effort that ICI's must make before declaring a particular debt uncollectable, and the relative ease or conditions with which the fund would assume half of the losses. The fund should not protect all loans, but only those loan applications that cannot meet collateral requirements, which could range between 1.0:1.0 to 1.4:1.0 as the minimum ratios of protection for every Rand of the original loan amount. A detailed analysis should be made at the PP stage in order to determine the maximum amount of risk the fund should take for an individual loan.

A guaranty fund would be a particularly effective tool in the case of Lesotho, where a large number of small entrepreneurs are presently not considered bankable. Another attractive feature of a guaranty fund relates to the rather unstable system of land tenure in Lesotho, in view that real estate is the preferred collateral that banks seek to support a loan. In the case of Lesotho, it is difficult to obtain this collateral, since the ownership of most land cannot be transferred. It would be necessary to obtain the services of a local attorney during the PP stage, in order to understand and include in the design of a guaranty fund, all the legal considerations necessary to establish an efficient guaranty program which would be clear of ambiguities.

As previously mentioned, alternative No. 1 would require the creation of a special operating unit within the future Monetary Authority. This unit would be responsible to administer, control and promote the proposed project. Its specific functions would be the following:

-- to review eligibility of discount applications above certain amounts, and to authorize guaranty fund protection of individual projects.

-- to promote the program through the publication of informational materials, media advertising and regularly-scheduled field visitations to all nine districts of the country.

-- to maintain basic statistics concerning the characteristics of the enterprises benefitting from the program, and their respective employment impact.

-- to establish and maintain records of discount operations.

-- to coordinate with technical assistance sources the training of financial officers for participating ICI's, and to act as a link for the provision of technical assistance to target enterprises.

-- to prepare an operations manual, credit application formats, and terms of reference for feasibility studies.

-- to be responsible for the general administration, supervision and control of the program.

-- to manage and maintain statistical control of the guaranty program.

-- to act as liaison between the local USAID Mission's project officer and the program.

The size and specific qualifications of the staff necessary to establish the special operating unit would have to be studied in more detail during the PP stage. However, it is estimated that the initial group would likely involve four to five individuals. Two of these (an accountant and an assistant) would have to dedicate most of their time to maintaining and posting discount transactions, the basic data on enterprises' characteristics (e.g., economic sector, location, type of loan received, employment, etc), and statistics related to the guaranty fund. Two or three others (combination of an economist and/or business administration major, would perform the role of evaluating discount applications, carry out promotional activities, and the coordination tasks with technical assistance sources, USAID and participating ICI's.

In addition to whatever financial and/or in-kind counterpart contribution the GOL would make to the project, it is customary to allow the main implementing institution to retain an interest rate spread of the cost of funds charged to ICI's, to assist in the support of the special operating unit. The PP design team must help to determine how wide the interest rate spread should be, and also recommend additional USAID contributions in the form of transport vehicles and office equipment necessary to make the special unit operational. A very valuable contribution that USAID has made in similar projects is to sponsor a visit to two or three foreign countries by two special-unit functionaries (accompanied by a USAID official) involving locations where USAID is sponsoring similar programs. If a local, well-qualified person can be recruited to head the special unit, and the foreign countries are visited, the need for services of a long-term expatriate consultant for this aspect of the project probably would be eliminated. If this is found to be the case during the PP stage, then most likely there would only be a need for short-term, expatriate consultant lasting three to four man-months at the inital period. The functions of this consultant would involve assistance with: the operations manual; credit application format; the establishment of the special unit; and the first promotional trips throughout the country. In addition, five to six man-weeks every year of short-term, expatriate advisory services will be needed during the life of the project to evaluate the program and to recommend modifications and any other changes considered necessary for improvement. If a competent head for the special unit cannot be recruited and/or the visits to other countries' project sites do not take place,then a need for an expatriate advisor, for a period ranging between eighteen to twenty-four months, probably would exist.

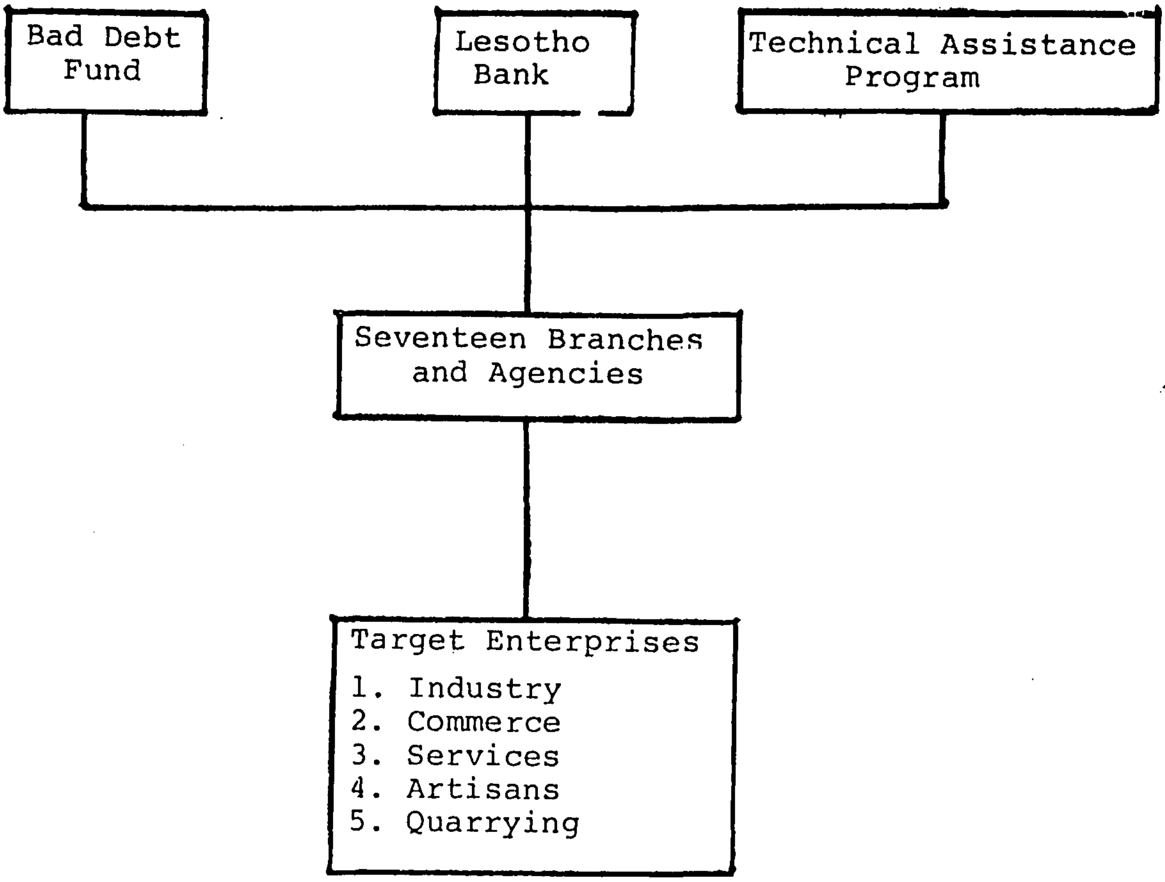
C. Alternative No. 2 - First-Level Program

A second alternative to the establishment of a credit delivery system involves only the Lesotho Bank as the credit implementing institution, as illustrated in Figure No. 3. The full name of this institution is the Lesotho National Development Bank, and it was established in 1973 to perform both commercial and development banking functions. The development banking functions never materialized, but within the short period of time since its establishment, it is quickly becoming the largest commercial bank in the country. It is the first commercial bank fully owned by the GOL, and it is managed and operated by Basotho individuals.

As can be seen in Table 2 in this chapter, the Lesotho Bank operates the largest commercial bank network of branches in the country. Of its seventeen branches and

FIGURE NUMBER 3

Features of a First-Level Program



agencies, thirteen are located outside Maseru. All districts have at least one branch or agency, with the exception of Mohale's Hoek district.

A program involving the Lesotho Bank alone would be considered a first-level program, since the implementing institution and the ICI's (branches and agencies) would be the same organization. The Lesotho Bank provides an excellent option as an implementing institution, if during the PP stage it is determined that either the Monetary Authority could not absorb the program within the short-term, or if it is felt that the other two major (foreign) commercial banks would not be active participants in the program.

Under this alternative, there would not be a need for a guaranty fund, but a bad debts fund would have to be established. It could be capitalized by the interest rate spread that would otherwise have gone to the Monetary Authority. There still would be a need for a special operating unit, but it is likely that the size of the staff would be smaller, if it can be determined during the PP stage that the present bank's infrastructure could handle the paperwork related to the loan accounts of the new program under the present operational system. There would not be discount operations under this alternative, but the special unit probably would have to act as a loan committee. The other functions of the special unit, listed under alternative No. 1, would also be the same for a first-level program. The automatic discount procedure for the fast processing of small-sized loans suggested in alternative No. 1, could be replaced by the present and future loan-granting autonomy of the managers of the various branches and agencies.

The basic need and time requirements for expatriate advisory services would be the same as those discussed under alternative No. 1 for the conditions outlined in the final paragraph of Section B of this chapter.

D. Trade-Offs Between Alternatives No. 1 and No. 2

The employment impact and the stimulation of small enterprises development are potentially the same under both alternatives. There would be, of course, some differences between the two, but most of these differences relate to the institutional impact the proposed project would have on financial organizations in Lesotho. Recent trends in development programming direct most of the reasoning behind project conceptualization towards the impact on target groups. This policy often ignores, or does not fully recognize, the profound effect that programs by international donors have on the policies and practices of implementing institutions. The proposed project would have a significant institutional impact regardless of which of the two alternatives is eventually adopted. The final decision as to which of the two alternatives offers the greater institutional capability to reach the employment and enterprises development objectives within the shortest period of time possible should come from the PP design team evaluation. The main features of the two alternatives that can be regarded as being distinctive at this point, are as follows:

1. Second-Level Program

-- Assuming equal levels of interest by participating institutions, this alternative would offer twenty-one (see Table 2) additional "credit windows" to the program, which are located outside the capital city of Maseru. Potential windows involve four communities where the Lesotho Bank has no local representation: Hlotze, Pitso Ground, Thaba Tseka, and Letseng-La Terai.

-- The discounting activities of the program would allow the Monetary Authority to perform an additional central banking function much sooner than anticipated.

-- More Basotho financial officers would upgrade their professional skills as a result of training provided through the program.

-- Development term-lending experience would be gained by the three principal commercial banks, and all three would reduce their excess liquidity to the extent of their active participation in the program.

-- The initiation of a second-level program means that the basic mechanism would be available to incorporate additional financial intermediaries like credit unions and/or federations in the future.

2. First-Level Program

-- The other two main commercial banks (Barclays and Standard) belong to very powerful, multi-national corporations with immense financial resources at their disposal. They could have initiated development lending much before the proposed project was suggested. The absence of a central bank in Lesotho and the conservative banking practices, which appear to be deeply ingrained within the system, as a result of many decades in which they have been practiced, would likely offer the greatest constraints to change. The Lesotho Bank, however, is the most recent one and appears to be the more dynamic of the three. Its original mandate states that it should become involved in development lending activities, and the proposed project offers its first real opportunity to do so. The Lesotho Bank was the first to recognize the valuable potential development impact of the proposed project, and it manifested the highest degree of interest to participate in the program.

-- Even though a first-level program involves only one bank, it is likely that the aggregate effect on total excess liquidity could be greater through the Lesotho Bank. Its development lending mandate, and its more active and direct interest in the economic development of Lesotho, could mean that it may be more disposed to provide counterpart funds (from excess liquidity), by a percentage greater than otherwise could be obtained through a second-level program. In addition, it probably would accept smaller profit margins than the other two banks.

The absence of the Monetary Authority in a first-level program means that the interest rate spread that would be retained by the Authority to offset administrative expenses, could be re-directed to create a revolving technical assistance fund, and still offer "development interest rates" to target enterprises.

IV. TECHNICAL ASSISTANCE DELIVERY SYSTEM

Most Basotho businessmen, particularly those located outside the city of Maseru, can be characterized as being at the early stages of entrepreneurial development. Having access to development funds is a primary necessity for Basotho enterprises, but it is equally important for such enterprises - in order to grow and to succeed - to acquire and/or to upgrade administrative and other pertinent business skills. The provision of training and direct technical assistance to target enterprises not only would be one of the major development results of the proposed project, but is a necessary step to increase the probability of repayment of program funds. In addition, it is important that funds, training and technical assistance be available on a continuing basis to benefit future Basotho entrepreneurs that would be incorporated into the program during the life of the project.

The design team realized during the early stages of their investigations that in addition to a capital component, there would be a need for a technical assistance component for the proposed project. In order to provide training to financial institutions and training and direct technical assistance to target enterprises, it is necessary to endow and continuously support a Business Extension Center. LNDC and BEDCO find it necessary to provide technical assistance to the enterprises they support and to continue training their own staffs. Their capability to provide these services is limited, and it would not be possible to tap these resources for use in the proposed program. The design team visited several other institutions in their search for potential technical assistance and training sources. It was found that the Lerotholi Technical Institute and the Lesotho Opportunities Industrialization Center, both of which provide vocational training (carpentry, plumbing, automotive repair, brick making, etc.), graduate individuals who would be potential users of the proposed credit line. Their training faculty have some potential to provide production-related, technical assistance on an as-per-needed basis. It is not possible to be certain at this point, but the Centre for Accounting Studies (CAS), which will be established this year (sponsored by the Irish government) to train accountants at three different skill levels, could possibly be used to train entrepreneurs in basic accounting methods, and provide direct technical assistance in setting up accounting records for some of the enterprises receiving loans from the proposed project. The Institute of Extra Mural Studies of the National University of Lesotho, in conjunction with the training section of the Ministry of Industry and Commerce, has, since 1974, sponsored and taught a yearly six-week business management course (see Annex No. 4 for Syllabus). This course is designed for small Basotho enterprises and has been given at the district level, with attendance by 680 entrepreneurs to date. Reportedly the course has been very successful and considered very necessary by those who attended it. It was originally started due to the initiative of the Ministry of Industry and Commerce, but lack of funding and staff (only one person is assigned to the Ministry's training section) has not permitted the course to be taught more often and in more locations. Recently, however, a Danish government donation to the university has allowed the construction of a Business Training Center in Maseru, where short-term training courses and seminars for Basotho entrepreneurs will be taught. The specific training programs of the new Center are presently being formulated. Interviews held by the design team with individuals responsible for organizing the Center revealed that there is a unique opportunity for utilizing it as the focal point for the technical assistance component of the proposed project. Participation by the Center in the proposed project would allow the opportunity to design concrete and specific training courses that would serve the needs of the program throughout the country. The scope of the new Center would have to be expanded from being strictly a business training center to a business extension center, which would include the provision of direct technical assistance to Basotho enterprises borrowing USAID funds. The university organizers of the Center and their co-sponsors at the Ministry of Industry and Commerce manifested great interest in becoming the implementing institution of the technical assistance component of the proposed project.

The support of business extension institutions is not a new feature in USAID programming. During the sixties, in over half a dozen countries in Latin America (Mexico, Peru, Ecuador, Paraguay, Bolivia, and others), USAID sponsored the creation of "productivity centers" which perform both functions of training and advisory services to business enterprises. In most cases such productivity centers have evolved into being among the most prestigious development institutions in their respective countries. The circumstances behind their creation were very similar to those existing in Lesotho: the need to support an USAID capital assistance project, and/or the absence of organized consulting or advisory services in the country.

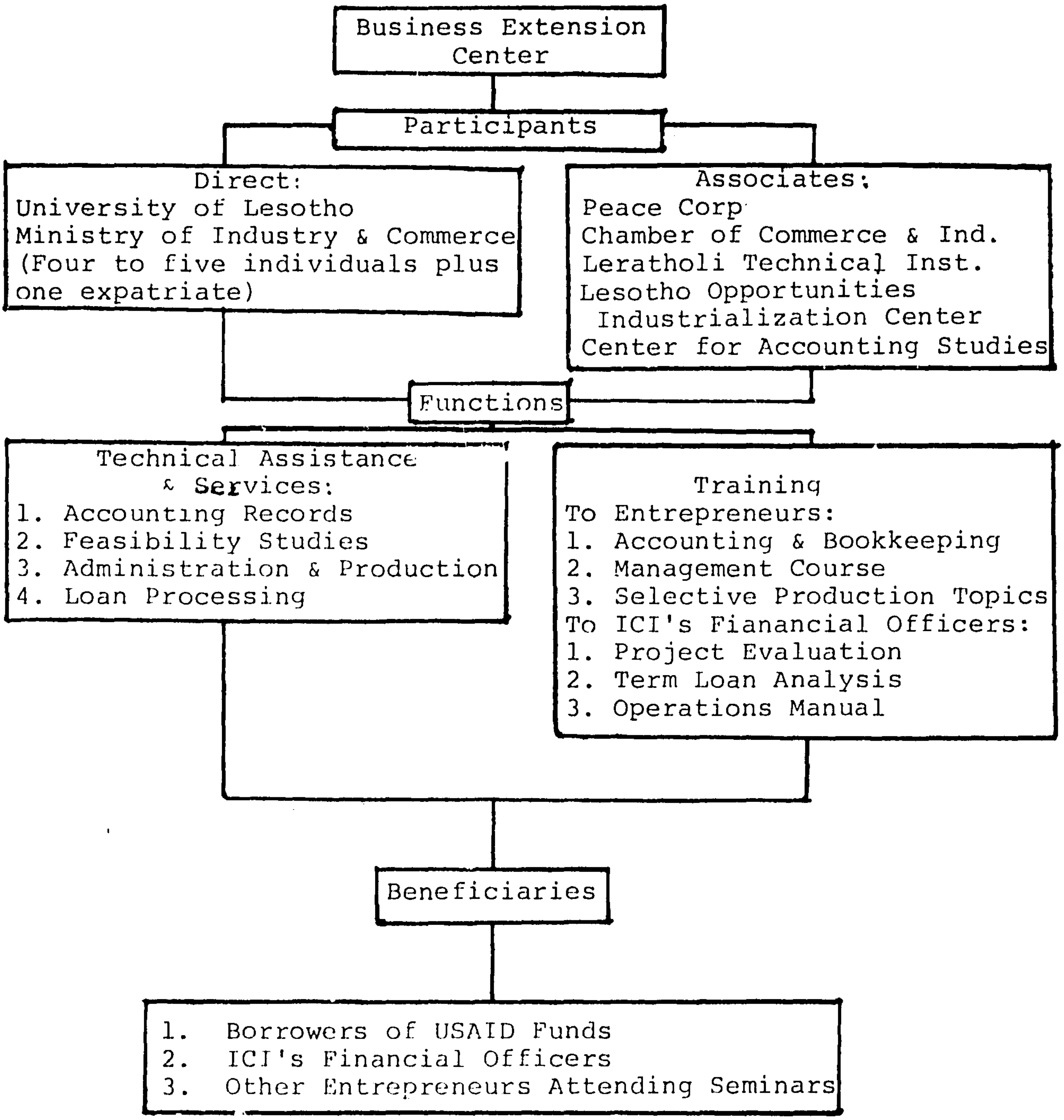
The organizational formula of productivity centers that has been most successful involves the creation of an autonomous institution (like the new training center), sponsored by both the public and the private sectors with the financial and technical support from international donors during the first three to five years of their existence. The creation of such an institution directly under existing governmental bodies (usually the Ministry of Industry and Commerce) often faces serious operational constraints that are due to the lack of continuous funding by the parent institution and difficulties in retaining competent personnel. Business extension centers must be staffed with the best technical talent available in a specific country. As the staff acquires experience, often they are subject to many rewarding employment opportunities as a result of their varied professional exposure.

The normal salary scales of government institutions rarely compete favorably with what the private sector offers to competent individuals. This constraint can be avoided by private sector or autonomous institutions, since both enjoy much more flexibility in establishing salary levels.

The establishment of business extension services under exclusive private sector initiative (e.g., Chamber of Commerce and Industry) admittedly offers attractive operational features, but problems often result from political pressures that place them in an adversary position vis-a-vis governmental institutions. Presently these types of institutions are rarely subject to international donor support, given their strict private sector nature. In the case of Lesotho, the new Business Training Center appears to be the best alternative to become the technical assistance implementing institution, because of its autonomous nature and its physical infrastructure, which is presently being constructed. In addition, the staff already has training experience in areas of interest to the proposed project. Figure No. 4 lists the participants and the training as well as the advisory function of the potential implementing institution. The general strategy should be to recruit a group of four to five individuals who would dedicate most of their time to provide direct technical assistance to enterprises borrowing program funds. This initial group would require the advisory services of an expatriate development consultant with engineering background (preferably mechanical or industrial) for the first two years after the initiation of the program. In addition to the training and development of its own staff, the Extension Center should be endowed to recruit the assistance of outside individuals and/or organizations for the implementation of its advisory services. Individuals should be contracted on a short-term basis to perform specific technical tasks that fall outside the expertise of the resident staff. In addition, an attempt should be made to recruit the assistance of other institutions, such as the Lesotho Chamber of Commerce and Industry and particularly the Peace Corps to help reach entrepreneurs located in cities other than Maseru. The Chamber of Commerce and Industry can assist in sponsoring and helping to organize regional training seminars. The Peace Corps volunteers can assist in helping small

FIGURE NUMBER 4

PARTICIPANTS AND FUNCTIONS OF A BUSINESS EXTENSION PROGRAM



entrepreneurs in processing loan applications and in setting up and maintaining accounting records, a function which undoubtedly will require the largest manpower effort.

One of the important tasks during the PP stage would be to design, in detail, organizational procedures that would take place between the financial implementing institution and the technical assistance implementing institution. The specific funding requirements of the latter institution should be developed to include operational funds during the life of the project (three to four years), as well as requirements for office equipment and transportation vehicles. Also during the PP stage, an analysis should be made of the alternatives available to the continuous local financial support of the Business Extension Center, which could include one or a combination of the following: GOL budgetary support; a portion of the interest rate paid by entrepreneurs; other international donors; the charging of consulting fees to certain sizes of enterprises; and the fees that might be collected from the training seminars.

V. NECESSARY FOLLOW-UP DURING PP STAGE

There are five major areas of necessary follow-up activities discussed in this chapter. A summary of these activities and their estimated duration is presented in Table No. 4. The follow-up activities discussed here relate to the project design elements concerning definitions, implementing institutions, and operational features of the proposed project. They do not include the macro-economical and broad institutional issues that often are part of project papers and which are normally developed by local Mission personnel.

A. Demand Analysis

In addition to holding interviews with businessmen in the city of Maseru, it would be necessary that the PP design team make field trips to eight or ten communities where the financial implementing institution(s) operates branches. Besides interviewing branch personnel, the principal purpose of the field trips would be to meet with individuals or groups of entrepreneurs. The information to be acquired during the field trips would be the following:

-- Final definition of the type of activities (target enterprises) that should benefit from the program.

-- Final definition of the type of costs and expenses that would be financed by the program.

-- Estimates of the adequacy of the financial resources available to meet the needs of the program for a three to four-year period.

TABLE NUMBER 4

TENTATIVE SCHEDULE OF FOLLOW-UP ACTIVITIES DURING THE PP STAGE

Activities	Time Periods Required (Weeks)									
	1	2	3	4	5	6	7	8	9	10
1. Credit Delivery System	——	——	——							
2. Demand Analysis	══	══	══	- - - (×2)						
3. Financial & Operational Parameters	——	——	——							
4. Technical Assistance System				══	══	══	- - - (×2)			
5. Guaranty or Bad Debts Fund									——	- - -

—— One individual

══ Two Individuals

- - - Possible additional week

-- Identifying the capital needs of existing entrepreneurs, in order to determine the maximum size loan to be financed by the project.

-- Interviews with entrepreneurs to help verify the most urgently needed types of technical assistance that should be provided.

-- Interviews with branch personnel to assist in identifying the type of training most urgently needed by bank functionaries.

-- Verifying the need for a guaranty fund (or a bad debt fund), and whether special groups (e.g., very small borrowers and/or cooperatives) should receive special program concessions.

The demand analysis field trips should start shortly after it has been determined which of the two alternatives would be followed for the institution of a credit delivery system. The scheduling of the trips hopefully would be accomplished with the cooperation of the Lesotho Chamber of Commerce and Industry. In addition to representatives from the USAID design team and the Chamber, at least one representative of the financial implementing institution should go on the field trips. The estimated duration of the demand analysis is three weeks.

B. Implementing Institution for the Credit Delivery System

The first task of the PP design team should be to hold individual and group meetings with financial institutions and relevant government authorities (Ministry of Planning and CFI) to determine which of the two alternatives appears more viable at that time. Once this has been established, immediate negotiations should begin concerning: counterpart contributions; level of discount in the case of a second-level project; interest rate spread to be retained by implementing institutions; collateral policy quidelines, and discussions relating to the institution of a guarantee or bad debt fund. In addition, the following project elements should be developed:

-- Detailed description of the functions and responsibilities of the special operating unit.

-- Operational budget requirements for the special operating unit.

-- Final staffing requirements (number and qualifications) and the necessary infrastructure and equipment to perform their functions.

-- Final determination and terms of reference for expatriate advisory services needed after a project agreement has been signed.

-- Writing of terms of reference for the preparation of operations manual, and if needed, credit application formats and feasibility studies. These documents are normally prepared by implementing institutions, during the interim period between PP approval in Washington and the signing of a project agreement as conditions precedent to disbursement. In the case of Lesotho, preferably they should be developed with the assistance of an USAID-sponsored advisor or an USAID functionary with experience in the topic.

These functions will require multiple interviews and working meetings. It could best be accomplished by two design team members during a period of time ranging between three to four weeks.

C. Financial and Operational Parameters

There are several decisions that must be made concerning the financial and operational parameters of the proposed project. The principal financial parameters are the following:

-- Interest rates to be paid by entrepreneurs for working-capital loans, the purchase of fixed assets, and other expenses, such as repair and installation costs.

-- Maximum time terms to be granted to target enterprises, including grace periods.

-- Percentage of individual loan applications amounts to be financed by program funds, and percentage to be provided from entrepreneurs' own funds.

-- Guidelines for maximum financial leverage to be allowed for target enterprises.

-- Guidelines for minimum levels of collateral requirements to be imposed by implementing institutions.

-- Interest rate spread to be kept by ICI's and the Monetary Authority (if applicable).

-- Interest rate spread, if any, to be allocated for the technical assistance implementing institution.

-- Interest rate spread, if any, to be allocated to a bad debts fund.

There are several operational parameters that need to be defined. Like the financial parameters, some deal with the characteristics of the credit line. Most, however, are used in an attempt to reach specific development objectives which are deemed to be desirable results of development projects. An attempt is made here to include as many as possible at the present time. Possibly, some of them may not need to be applied, according to the final recommendations of the PP design team. However, for those that are adopted, an effort should be made to design them in such a way, that they can be altered by the Mission throughout the life of the project, without amending the project agreement each time that they are changed or modified. The most important potential operational parameters identified at this point are the following:

-- Number of loans to individual entrepreneurs and/or enterprises for different projects.

-- Number of loans allowed for the same project.

-- Time period that must pass before a second loan (if any) can be made for the same project.

-- Number of payments not made or time period that must pass before foreclosing on an outstanding delinquent loan.

-- Policy concerning the refinancing of old debts and/or delinquent loans.

-- Maximum percentage of total program funds that can be used to finance larger-sized enterprises eligible under the program.

-- Maximum percentage of total program funds to be used to finance working capital needs.

-- Percentage of total program funds to be used to finance new enterprises.

-- Maximum percentage of total program funds to finance enterprises located in the city of Maseru.

-- Percentage distribution of total program funds to be used by the various economic sectors representing target enterprises.

-- Maximum ratio of loan funds per job created or maintained, including policy guidelines for exceptions to the rule.

In order to reach the decisions related to financial and operational parameters the allocation of special time is not required, but rather they should be made during the same three to four week period dealing with the implementing institution for the credit-delivery system.

D. Technical Assistance Delivery System

The most important tasks that must be dealt with by the PP design team in connection with the technical assistance delivery system are as follows:

-- Final detailed description of the training topics, and the specific direct technical assistance to be provided under the program.

-- Staffing requirements, including job descriptions and skill levels required.

-- Determination and terms of reference for expatriate advisory services needed for the technical assistance unit.

-- Development of an operational budget and determination of equipment and transportation vehicles needed.

-- Final identification and detailed description of the technical assistance and training role to be performed by outside institutions such as the Peace Corps, Chamber of Commerce and Industry, and others.

-- Design of functional relationships and organizational process between the Business Extension Center and the implementing financial institutions.

-- Identification and detailed description of alternatives which could be followed to inject new funds for training and technical assistance.

Similar to the demand analysis and matters relating to financial institutions, the investigations, negotiations, and number of institutions to be contacted will require a high level of effort by the design team. It would take two PP team members six to seven man/weeks to perform the above-mentioned tasks.

E. Guaranty and/or Bad Debts Fund

The steps that are needed in connection with the establishment of a guaranty and/or bad debts fund are the following:

-- Detailed description of the operational features of a guaranty fund in the case of a second-level program.

-- Determination of the types of loans eligible for guaranty fund protection.

-- Amount and source of capitalization of the guaranty fund.

-- Terms of reference for the actual (official) preparation of the guaranty fund which, like operation manuals, should be prepared by the implementing institution during the interim period between Washington approval of PP documents and project implementation as conditions precedent.

-- Guidelines for the management of the guaranty fund.

-- In the case of a first-level program, a detailed description of the operation of a bad debts fund.

-- Determination of degree of capitalization and sources of funds.

-- Guidelines for the management of a bad debts fund.

In the case of a guaranty fund for a second-level program, it would take a PP team member and a local attorney two weeks to deal adequately with the above-mentioned tasks. In the case of bad debts fund for a first-level program, it would only take one week for a team member to deal with details concerning its establishment. The advice of a local attorney may also be necessary for this second alternative.

VI. FINAL COMMENTS AND RECOMMENDATIONS

Recent trends in enterprises development programming are characterized by "selective" lines of credit with relatively narrow definitions of target enterprises - agribusiness, co-operatives development, artisan projects, and rural enterprises development. The apparent success of some of these selective credit lines demonstrates that their conceptualization was correct, because the specific gaps these programs are filling were large enough to justify individual, selective projects. The countries where selective credit lines are being implemented (mostly in Latin America) are larger than Lesotho, and their economic and institutional development is generally more advanced. The relatively small population size of Lesotho and its relatively small entrepreneurial pool make it difficult to justify a highly selective line of credit other than perhaps, agriculture and livestock enterprises development projects. The design of both selective and broadly defined lines of credit involves the appraisal of the technical assistance needs of implementing institutions and target enterprises. Undoubtedly, such needs are many in Lesotho, due to its present, early stage of institutional and economic development.

The features of the proposed project, as discussed in this report, call for a multi-sectional line of credit in order to maximize the probability of employment impact by the program, while, at the same time, making the potential universe of borrowers large enough to justify an individual project. The desirable effects of selective lines of credit can be achieved under the proposed project through effective manipulation of parameters similar to the ones discussed in the previous Chapter. In addition, some of the efforts of the business extension staff should be directed toward the investigation (feasibility studies) and promotion of investment opportunities, which are considered to have a high priority due to their strategic development impact (e.g., agribusiness and import substitution enterprises). Entrepreneurial initiative is one of the scarcest commodities in developing countries, and one of the main purposes of a multi-sectorial credit line is to support such initiative when it is evident or when it is identified. Previous development experiences have demonstrated that enterprises development is a self-reinforcing phenomenon, and that demonstration effects stimulates even further entrepreneurial initiative. Experience has also shown that development practitioners have little effective control over the direction of such initiative, since this depends, to a large extent, on the following uncontrollable variables: entrepreneurial risk perception, financial strength, technical and business background.

The preliminary design of the proposed project presents a flexible development program that will require continuous monitoring from the Mission or its representatives. The present design suggests periodic evaluations and the institution of a data system (employment impact and enterprises characteristics) that will allow the monitors to make mid-course corrections to meet the previously stated parameters, or to modify the parameters somewhat to adjust to local or new realities. The program flexibility being suggested here means that the Mission must reserve the right to make project modifications, preferably without the need to amend the original project agreement between USAID and the GOL.

The proposed project does not involve the creation of new institutions, but rather the reinforcement and redirection of some of the existing ones. The present institutional capability of the organizations involved makes it very difficult to design a new program that would be free of new recurring costs. The budgetary estimates that will be performed during the PP stage, involving the financial and technical assistance implementing institutions, should reveal if such cost can be offset by the program generated income. Similar projects in other parts of the world appear to generate funds that sufficiently cover new operating expenses. However, since every country is different, budget projections are the best tool to determine the degree by which recurring costs will be covered through distribution of the interest rates charged to enterprises benefitting from the program.

In conclusion, it must be stated that the support and cooperation of the Lesotho Chamber of Commerce and Industry would be a very valuable asset that would contribute towards the success of the proposed project. The Chamber and its membership (over 900) could serve as an excellent vehicle to organize regional seminars, and to make the project known throughout the country. Their support and advice must be secured at the PP stage. It would be a favorable feature if a direct advisory role could be designed for the Chamber in loan committees and/or in the Business Extension Center.

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ANNEX NUMBER 1

INSTITUTIONS AND ENTREPRENUERS INTERVIEWED OUTSIDE MASERU

LOCATION	INSTITUTION OR INDIVIDUAL INTERVIEWED	TYPE OF BUSINESS
TEYA-TEYANENG	J. Yika	Blacksmith
	S. Khaile	Brick Builder
	M. Masilo	Carpenter
	M. Mapoto	Brickmaker and Poultry
	M. Matsepe	Dressmaker
	T. Maime	Dressmaker
	E. Thite	Berea wholesaler
	M. Mofane	Photography
	M. Thau	Poultry
	N. Kefure	Watch repairman
	M. Suping	Carpenter and Radio Repair Shop
	M. Majoro	Poultry farming
	Thabo Taledi	Lesotho Bank
	Motlatsi Selepe	Standard Bank
	Manager out of town	Barclays Bank--open only Tuesday and Friday
	All Banks work half day - morning hours.	
PEKA	M. Thoo	General Dealer
	R. Mofana	General Dealer/Transport
	J. Thoo	General Dealer
	M. Thoothe	Cafe
	Georgina Theoha	Manka Credit Union
MAPUTSOE	L. Nonyane	Mechanic
	S. Pheku	Brickmaking
	N. Ntoi	Backsmith
	N. Masiu	Taxi/Transport
	N. Noko	Mechanic

ANNEX NUMBER 1 CONTINUED

LOCATION	INSTITUTION OR INDIVIDUAL INTERVIEWED	TYPE OF BUSINESS
MAPUTSOE -- con't	P. Motseki	Record Bar
	J. Moseme	Fruit Shop
	H. Motsoeneng	Carpenter
	M. Miya	Boarding House and General Cafe
	I.I. Phakela	Fruit and Vegetable Shop
	F. Majosi	Welding
ST. MONICAS	Khomo-Khoana	Credit Union
LERIBE	Letuka	General Dealer
		Bottle Store and Hotel
	T.S. Makotoko	Hotel
	R.M. Mofokeng	School uniform factory
		Wants to invest in new tannery
	Chocho	Welding
	Sister Margoria Gean	Leribe Crafts Center
	Oriel Ntsekhe	Brickmaking
	M. Molapo	Photographer
	J.T. Chabalala	Butcher, General cafe, Restaurant
	M. Monate	Garage
	O.T. Selupe	General dealer
	M. Miya	General dealer, brickmaking
	L. Pule	General dealer, brickmaking.
		Wants to invest in underwear factory
	M. Leboela	Wants to invest in dry cleaning.
	R. M. Mofokeng,	Directors of Mohalalitoe School
	M.A. Makhetha,	Uniform Factory. Largest employer
	Rev. Lets'opha,	in town.
	Rev. G.N. Mofolo,	

ANNEX NUMBER 1 CONTINUED

LOCATION	INSTITUTION OR INDIVIDUAL INTERVIEWED	TYPE OF BUSINESS
BUTHA-BUTHE	E. Ts'ilo	General dealer, Transport Restaurant, wood and coal, furniture. Hawker
	L. Taolana	Motor Mechanic/Garage
	M. Motaung	Carpenter
	M. Mokhachane	General dealer, transport
	M. Khotlele	Hotel(Crocodile Inn)
	M. Mokape	Cinema Hall
	M. Mafoso	General dealer.
	M. Pholosa	Tailoring General dealer
	M. Motholo	General dealer
	Paki	General dealer/shop buildings
	M. Motholo	Radio repairs
	M. Mosoana	Carpenter
	C. Moloi	Watch repair
	M. Majoro	Watch repair
	T. Seithleko	Plumber
	J. Pompi	Plumber
	T. Moloi	Plumber
	M. Molapo	Radio repair
	R. Ramakhula	Tailor
	K. Jonki	Tailor
	M. Motsoeli	Tailor
	R. Mphaloli	General dealer
	S. Sefatsana	Tailor
	S. Molapo	Transport
	T. Hlisi	Transport
	C. Cholu	Tailor
	T. Monyamane	Fruit shop

ANNEX NUMBER 1 CONTINUED

LOCATION	INSTITUTION OR INDIVIDUAL INTERVIEWED	TYPE OF BUSINESS
MAFETENG	M. Lepono	Cafe
	M.A. Lepono	Knitting machine
	T.S. Makhoana	Garage/Spare parts
	A. Malephane	Butcher/Bottle store
	S. Senaoana	Filling station/Garage
	M. Senaoana	Restaurant/General cafe/ transport
	W. Scott	General Trader
	A. Makhaola	Road House and Furniture shop
	B.S. Serutla	General Trader (Wholesale Pty. Ltd.)
		Bana-ba-Khoale Wholesale
	T. Tlalake	General dealer
	E. Boemo	Furniture
	T. Kakake	General Dealer and Shoe Shop
	R. Seobi	Radio repair
	M. Mohale	General cafe
	S.M. Thahanyane	Photographic studio
	M. Lebese	General cafe
	M. Seobi	General cafe
MOHALE'S HOEK	T.R.S. Tlaitlai	Building contractor
		Transport
	E.M. Khabo	Carpenter
	M. Rachobo	Dressmaker
	S.K. Thai	Wholesaler
	B. Khotso	Saddler, Shoe maker

Type of Industries by Location (April, 1979)

Type of Industries	Districts					
	Mohales Hoek	Mafetang	Maseru	Berea	Laribe	Butha-Buthe
1. Agroindustries	1	1	5		2	
2. Wood Products			4			1
3. Tannery & Leather			3			
4. Wool & Mohair Products			5	2		
5. Candles			1			
6. Rubber Products			1			
7. Chemical Products			1			
8. Ceramics Products			2	1		
9. Cosmetics			1	1		
10. Construction Materials			6			
11. Pharmaceuticals		1				
12. Alcoholic Beverages			1			
13. Metal Products Fabricating			4		4	
14. Custom Jewelry			1			1
15. Paper Products					1	
16. Apparel			2	1	4	
17. Shoes					1	
Totals	1	2	37	5	12	2

ANNEX NUMBER 3

Licensed Businesses in Lesotho (April, 1979)

Types of Businesses	Districts					
	Mohales Hoek	Mafetang	Maseru	Berea	Leribe	Butha-Buthe
1. Advertising Agents				1		
2. Agents of Foreign Firm					2	
3. Banker	1		2			
4. Broker				4		
5. Chemist	1	2	4		3	
6. Insurance						
7. Publishers of News						
8. Travel Agency			1		1	1
9. Builders & Contractors	12	7	41	25	27	3
10. Cinema	5	3	11	4	8	
11. Mineral Waters			1			
12. Barber			4	2	8	
13. Baker	7	5	6	10	4	
14. Brickmaker	25	58	75	16	38	19
15. Butcher	47	46	139	78	129	46
16. Tea Room		9	7	16	2	5
17. Clock & Watch Dealer	6	7	4		1	
18. Wood and Coal	18	25	45	27	67	21
19. Confectioner and Tobacconist						
20. Cycle Dealer			1			
21. Dairy	1	2	1	2	1	
22. Dealer in Building Material	4		11	1	3	
23. Dealer in Livestock		3				

ANNEX NUMBER 3 CONTINUED

Types of Businesses	Districts					
	Mohales Hoek	Mafetang	Maseru	Berea	Leribe	Butha-Buthe
24. Dealer in Farm Produce						
25. Dealer in Wool and Mohair						
26. Dealer in Electric Accesory	16	4	9		12	8
27. Dealer in Furniture	8	8	11	39	28	40
28. Dealer in Petroleum	7	1	11	5	5	15
29. Dealer in Stationery			1		1	1
30. Dealer in Footwear		1	9	7	5	
31. Sports Goods			3		1	2
32. Dealer in Textile	18	36	61		94	12
33. General Cafe	250	283	387	385	430	163
34. Green Grocer	11		9	7		2
35. Grocer	382	310	460	412	458	261
36. Hawker						
37. Miller	31	39	68	88	75	
38. Motor Dealer			11	2	3	
39. Motor Garage	15	11	23	8	14	8
40. News Agent						1
41. Photo Studio		2	3	3	5	
42. Printing Press						
43. Restaurant	16	10	51		33	7
44. Basotho Beer Shops		11	6		26	3
45. Laundery and Drycleaners		1	5	4		

ANNEX NUMBER 3 CONTINUED

Types of Businesses	Districts: Mohales Hoek	Mafetang	Maseru	Berea	Leribe	Butha-Buthe
46. Wholesalers	2	3	13	141	6	
47. General Traders	210	69	219		150	
48. Importers and Exporters			7			
49. Scrap-yard Dealers	3		3		12	
50. Funeral Undertakers	1		3		1	
51. Miscellaneous			23		27	10
TOTAL	1121	956	1749	1282	1652	635

ANNEX NUMBER 4

SYLLABUS OF BUSINESS MANAGEMENT COURSE
(6 Weeks Duration, Half-Day Sessions)

COURSE CONTENT

A. SUPPLY & DISTRIBUTION OF GOODS

Manufacturing
Wholesaling
Consumers

B. BUSINESS MANAGEMENT & TECHNIQUES

Buying and Selling
Costing & Pricing
Stock Control & Stock-taking
Storage & Warehousing
Merchandising & Salesmanship & Advertising
Cash & Credit Control
Bookkeeping
Communication & Office Organization & Supervision
Insurance

C. FINANCING, BANKING & CREDIT FACILITIES

Forms of Ownership
Sole Proprietor
Partnerships
Private Companies
Public Companies
Co-operatives

Financial Institutions
Lesotho Bank
Commercial Banks
Lesotho National Development-Corporation
Other Financial Institutions

D. LEGAL ASPECT OF BUSINESS ENTERPRISE

1973 Trading Order
Acquisition of Business Sites & Premises including renting & leasing
Employment Act
Contract of Purchase & Sale
Income Tax and P.A.Y.E.
Customs Order & Statistical Act
Other Laws affecting Trade

ANNEX NUMBER 4 CONTINUED

E. INTERNATIONAL TRADE

Imports & Exports Control & Balance of Payments
International Agreements

F. PERSONNEL MANAGEMENT AND TRAINING

Selection & Appointment of Personnel
Duties & Responsibilities & Supervision
Wages and Salaries of Staff
Promotions and Training

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5. The performance of your group has been dropping during the last few months. Members have been unconcerned with meeting objectives. They have continually needed reminding to do their tasks on time. Redefining roles has helped in the past.
   A. Allow the group to formulate its own direction.
   B. Incorporate group recommendations, but see that objectives are met.
   C. Redefine goals and supervise carefully.
   D. Allow group involvement in setting goals, but do not push.
6. You stepped into an efficiently run situation. The previous administrator ran a tight ship. You want to maintain a productive situation, but would like to begin humanizing the environment.
   A. Do what you can to make the group feel important and involved.
   B. Emphasize the importance of deadlines and tasks.
   C. Be careful not to intervene.
   D. Get the group involved in decision making, but see that objectives are met.
7. You are considering major changes in your organizational structure. Members of the group have made suggestions about needed change. The group has demonstrated flexibility in its day-to-day operations.
   A. Define the change and supervise carefully.
   B. Acquire the group's approval on the change and allow members to organize the implementation.
   C. Be willing to make changes as recommended, but maintain control of implementation.
   D. Avoid confrontation; leave things alone.
8. Group performance and interpersonal relations are good. You feel somewhat unsure about your lack of direction of the group.
   A. Leave the group alone.
   B. Discuss the situation with the group and then initiate necessary changes.
   C. Take steps to direct your subordinates toward working in a well-defined manner.
   D. Be careful of hurting boss-subordinate relations by being too directive.
9. Your superior has appointed you to head a task force that is far overdue in making requested recommendations for change. The group is not clear about its goals. Attendance at sessions has been poor. The meetings have turned into social gatherings. Potentially, the group has the talent necessary to help.
   A. Let the group work it out.
   B. Incorporate group recommendations, but see that objectives are met.
   C. Redefine goals and supervise carefully.
   D. Allow group involvement in setting goals, but do not push.
10. Your subordinates, usually able to take responsibility, are not responding to your recent redefining of standards.
    A. Allow group involvement in redefining standards, but do not push.
    B. Redefine standards and supervise carefully.
    C. Avoid confrontation by not applying pressure.
    D. Incorporate group recommendations, but see that new standards are met.

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